



Management's Discussion and Analysis and
Financial Statements

September 30, 2014 and 2013

Wagoner Hospital Authority

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Independent Auditor's Report

Board of Trustees
Wagoner Hospital Authority
Wagoner, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Wagoner Hospital Authority (Authority), which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wagoner Hospital Authority as of September 30, 2014 and 2013, and the results of its operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
March 31, 2015

This discussion and analysis of the financial performance of Wagoner Hospital Authority (Authority) provides an overview of the Authority's financial activities and balances for the years ended September 30, 2014, 2013, and 2012. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights

- The Authority's total assets decreased during the year by \$1,079,216 or 8% in 2014 compared with an increase during 2013 of \$1,785,737 or 16%
- The Authority's total liabilities decreased during the year by \$498,505 or 7% in 2014 compared with an increase during 2013 of \$1,172,338 or 20%.
- The Authority reported operating loss in 2014 of \$455,808 and operating income in 2013 of \$1,080,788. Operating income decreased \$1,536,596 or 142% from 2013 to 2014. Operating income decreased \$1,426,141 or 57% from 2012 to 2013.

Using This Annual Report

The Authority's financial statements consist of three statements – statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Authority's finances is, "Is the Authority, as a whole, better or worse off as a result of the year's activities?" The statements of net position and the statements of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two aforementioned statements report the Authority's net position and changes in them. You can think of the Authority's net position - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Statements of Net Position and are reflected in Table 1. The Authority's net position decreased by \$580,711 or 10% in 2014 and increased by \$613,399 or 12% in 2013.

Condensed Financial Statements

Table 1: Statements of Net Position

	2014	2013	2012
Assets			
Current assets	\$ 6,340,926	\$ 7,822,998	\$ 6,667,934
Capital assets, net	5,280,561	4,877,705	4,247,032
Total assets	<u>\$ 11,621,487</u>	<u>\$ 12,700,703</u>	<u>\$ 10,914,966</u>
Liabilities			
Current liabilities	\$ 3,756,637	\$ 4,150,691	\$ 2,842,441
Non current liabilities	2,871,986	2,976,437	3,112,349
Total liabilities	<u>6,628,623</u>	<u>7,127,128</u>	<u>5,954,790</u>
Net Position			
Net investment in capital assets	2,003,058	1,664,006	954,573
Unrestricted	2,989,806	3,909,569	4,005,603
Total net position	<u>4,992,864</u>	<u>5,573,575</u>	<u>4,960,176</u>
Total liabilities and net position	<u>\$ 11,621,487</u>	<u>\$ 12,700,703</u>	<u>\$ 10,914,966</u>

A significant component of the change in the Authority's assets is the decrease in current assets. Current assets decreased in 2014 by \$1,482,072 or 19% compared to an increase of \$1,155,064 or 17% in 2013. Cash and cash equivalents decreased \$2,693,700 or 68% in 2014 compared to 2013 which increased \$118,880 or 3%. Patient accounts receivable, net of allowances, increased \$620,694 or 19% in 2014 compared to 2013 which increased \$872,885 or 36%.

A significant component of the change in the Authority's liabilities is the decrease in current liabilities. Current liabilities decreased in 2014 by \$394,054 or 9% compared to an increase of \$1,308,250 or 46% in 2013. Estimated third-party settlements decreased \$697,966 or 37% in 2014 compared to 2013 which increased \$515,460 or 37%. Accounts payable increased \$27,946 or 2% in 2014 compared to 2012 which increased \$476,271 or 64%.

Table 2: Statements of Revenues, Expenses, and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue	\$ 21,610,962	\$ 19,360,389	\$ 18,048,270
Other operating revenue	740,143	971,426	169,625
Total operating revenues	<u>22,351,105</u>	<u>20,331,815</u>	<u>18,217,895</u>
Operating Expenses			
Nursing services	3,681,924	3,285,778	3,001,256
Other professional services	11,341,487	9,036,481	6,456,967
General services	1,908,355	1,713,285	1,571,385
Administrative services	4,853,589	4,332,904	3,952,265
Depreciation	1,021,558	882,579	729,093
Total operating expenses	<u>22,806,913</u>	<u>19,251,027</u>	<u>15,710,966</u>
Operating income (loss)	<u>(455,808)</u>	<u>1,080,788</u>	<u>2,506,929</u>
Nonoperating Revenues (Expenses)			
Contribution	-	(345,000)	-
Investment income	4,042	13,130	11,099
Interest expense	(141,717)	(149,531)	(158,936)
Noncapital contributions	12,772	12,100	10,482
Gain on sale of assets	-	1,912	-
Total nonoperating revenues (expenses)	<u>(124,903)</u>	<u>(467,389)</u>	<u>(137,355)</u>
(Decrease) Increase in Net Position	(580,711)	613,399	2,369,574
Net Position, Beginning of Year	<u>5,573,575</u>	<u>4,960,176</u>	<u>2,590,602</u>
Net Position, End of Year	<u>\$ 4,992,864</u>	<u>\$ 5,573,575</u>	<u>\$ 4,960,176</u>

Operating Income

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The operating income for 2014 decreased by \$1,536,596 or 142% as compared to 2013 and decreased in 2013 by \$1,426,141 or 57% compared to 2012. The primary components of the decreased operating income are:

- An increase in net patient service revenue of \$2,250,573 or 12% as compared to an increase in 2013 of \$1,312,119 or 7%.

- An increase in other professional services of \$2,305,066 or 26% as compared to an increase in 2013 of \$2,579,514 or 40%.
- An increase in administrative services of \$520,685 or 12% as compared to an increase in 2013 of \$380,639 or 10%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of contribution and interest expense. The Authority made contributions to the City of \$345,000 in 2013. Interest expense decreased \$7,814 or 5% from 2013 to 2014, and increased \$9,405 or 6% from 2012 to 2013.

The Authority's Cash Flows

The changes in the Authority's cash flows were due to:

- Net cash from operating activities decreased in 2014 by \$3,375,693 and decreased in 2013 by \$1,640,256.
- Net cash used by capital and capital related financing activities decreased in 2014 by \$226,529 and increased in 2013 by \$113,073.

Capital Assets

In 2014, the Authority purchased \$1,424,414 of capital assets and had \$5,280,561 invested in capital assets, net of accumulated depreciation, at the end of 2014 as detailed in Note 4, to the financial statements. In 2013, the Authority purchased \$1,513,252 of capital assets and had \$4,877,705 invested in capital assets, net of accumulated depreciation, at the end of 2013 as detailed in Note 4 to the financial statements.

Long term Debt

The Authority incurred additional debt of \$299,273 for a capital lease in 2014 and had total long term debt of \$3,277,503 for the year ended 2014. In 2013 the Authority entered into capital leases totaling \$140,937 and had \$3,213,699 of debt at the end of 2013.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by calling 918-485-1200.

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	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,270,014	\$ 3,963,714
Accounts receivable		
Patients, net of allowance for doubtful accounts of \$2,683,000 in 2014 and \$2,021,000 in 2013	3,932,322	3,311,628
Electronic health record incentive receivable	537,407	-
Other	1,139	57,219
Security deposits	24,214	9,639
Supplies	487,954	414,226
Prepaid expenses	87,876	66,572
Total current assets	6,340,926	7,822,998
Capital Assets		
Land and construction in progress	326,860	651,494
Depreciable capital assets, net of accumulated depreciation	4,953,701	4,226,211
Total capital assets, net	5,280,561	4,877,705
Total assets	\$ 11,621,487	\$ 12,700,703

See Notes to Financial Statements

Wagoner Hospital Authority
Statements of Net Position
September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 405,517	\$ 237,262
Accounts payable	1,249,206	1,221,260
Accrued liabilities	899,420	791,709
Estimated third-party payor settlements	<u>1,202,494</u>	<u>1,900,460</u>
Total current liabilities	3,756,637	4,150,691
Long-Term Debt, net of current maturities	<u>2,871,986</u>	<u>2,976,437</u>
Total liabilities	<u>6,628,623</u>	<u>7,127,128</u>
Net Position		
Net investment in capital assets	2,003,058	1,664,006
Unrestricted	<u>2,989,806</u>	<u>3,909,569</u>
Total net position	<u>4,992,864</u>	<u>5,573,575</u>
Total liabilities and net position	<u><u>\$ 11,621,487</u></u>	<u><u>\$ 12,700,703</u></u>

Wagoner Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$3,407,132 in 2014 and \$3,740,072 in 2013	\$ 21,610,962	\$ 19,360,389
Other	<u>740,143</u>	<u>971,426</u>
Total operating revenues	<u>22,351,105</u>	<u>20,331,815</u>
Operating Expenses		
Nursing services	3,681,924	3,285,778
Other professional services	11,341,487	9,036,481
General services	1,908,355	1,713,285
Administrative services	4,853,589	4,332,904
Depreciation	<u>1,021,558</u>	<u>882,579</u>
Total operating expenses	<u>22,806,913</u>	<u>19,251,027</u>
Operating (Loss) Income	<u>(455,808)</u>	<u>1,080,788</u>
Nonoperating Revenues (Expense)		
Contribution	-	(345,000)
Gain on sale of asset	-	1,912
Investment income	4,042	13,130
Interest expense	(141,717)	(149,531)
Noncapital contributions	<u>12,772</u>	<u>12,100</u>
Net nonoperating revenues (expenses)	<u>(124,903)</u>	<u>(467,389)</u>
(Decrease) Increase in Net Position	(580,711)	613,399
Net Position, Beginning of Year	<u>5,573,575</u>	<u>4,960,176</u>
Net Position, End of Year	<u><u>\$ 4,992,864</u></u>	<u><u>\$ 5,573,575</u></u>

Wagoner Hospital Authority
Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 20,292,302	\$ 19,002,964
Payments to suppliers and contractors	(12,853,232)	(9,786,183)
Payments to employees	(8,891,498)	(7,968,644)
Other receipts	258,816	933,944
	<u> </u>	<u> </u>
Net Cash From (Used for) Operating Activities	<u>(1,193,612)</u>	<u>2,182,081</u>
Noncapital and Related Financing Activities		
Noncapital contributions	12,772	12,100
Contributions to city	-	(345,000)
	<u> </u>	<u> </u>
Net Cash From (Used for) Noncapital and Related Financing Activities	<u>12,772</u>	<u>(332,900)</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(235,469)	(219,694)
Interest payments on long-term debt	(141,717)	(149,531)
Deposit on equipment	(14,575)	(3,800)
Purchase of capital assets	(1,125,141)	(1,372,318)
Proceeds on sale of equipment	-	1,912
	<u> </u>	<u> </u>
Net Cash Used for Capital and Related Financing Activities	<u>(1,516,902)</u>	<u>(1,743,431)</u>
Investing Activities		
Interest on investments	4,042	13,130
	<u> </u>	<u> </u>
Net Change in Cash	(2,693,700)	118,880
Cash and Cash Equivalents, Beginning of Year	<u>3,963,714</u>	<u>3,844,834</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,270,014</u></u>	<u><u>\$ 3,963,714</u></u>

Wagoner Hospital Authority
Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating (Loss) Income to Net Cash		
From (Used for) Operating Activities		
Operating (loss) income	\$ (455,808)	\$ 1,080,788
Adjustments to reconcile operating (loss) income to net cash		
from (used for) operating activities		
Provision for depreciation	1,021,558	882,579
Provision for bad debts	3,407,132	3,740,072
Changes in assets and liabilities		
Accounts receivable	(4,027,826)	(4,612,957)
Other receivables	(481,327)	(37,482)
Supplies	(73,728)	(94,369)
Prepaid expenses	(21,304)	(27,648)
Accounts payable	27,946	476,271
Accrued liabilities	107,711	259,367
Estimated third-party payor settlements	<u>(697,966)</u>	<u>515,460</u>
Net Cash (Used for) From Operating Activities	<u>\$ (1,193,612)</u>	<u>\$ 2,182,081</u>
Supplemental Disclosure of Non Cash Capital and Related Capital		
Financing Activities		
Capital assets financed through capital lease arrangement	<u>\$ 299,273</u>	<u>\$ 140,934</u>

Note 1 - Organization and Significant Accounting Policies

The financial statements of the Wagoner Hospital Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

Reporting Entity

The Authority is a 100-bed acute care hospital located in Wagoner, Oklahoma. The Authority is a public trust created under the laws of the State of Oklahoma, for the hospital facilities and equipment located in the city of Wagoner, Oklahoma. The city of Wagoner is beneficiary of the trust.

The Authority primarily earns revenues by providing inpatient, psychiatric inpatient, outpatient, and emergency care services to patients from Wagoner, Oklahoma and surrounding communities. The Authority opened a Wound Care clinic and Hyperbaric clinic during 2013. The clinics serve the Authority's service area.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and Authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These Criteria include appointing a voting majority of the organization's governing body and (1) the ability of the Authority impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority does not have a component unit which meets GASB criteria.

Income Taxes

The Authority is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is not required to file Federal income tax returns.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Authority's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

Net Investment in Capital Assets - Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Unrestricted - Unrestricted net position consists of net position not meeting the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then towards unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are valued at the lower of cost (first-in, first-out method) or market and are expensed when used.

Capital Assets

Capital asset acquisitions in excess of \$1,000 are capitalized and recorded at cost. Capital assets donated for Authority operations are recorded as additions to net position at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the

lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows:

	<u>Depreciable Life</u>
Land improvements	10 years
Buildings and improvements	10 - 40 years
Major moveable equipment	3 - 15 years

Compensated Absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay in effect at the statement of net position date plus an additional amount for compensation - related payments such as social security and Medicare taxes computed using rates in effect at that date.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were \$501,000 and \$66,000 for the years ended September 30, 2014 and 2013. Total direct and indirect costs related to these foregone charges were approximately \$210,000 and \$26,000 at September 30, 2014 and 2013, based on an average ratio of cost to gross charges.

Grants and Contributions

From time to time, the Authority receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted

for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicare share; and (3) a transition factor applicable to that payment year.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

The Authority recognized revenue of \$537,407 and \$794,949 for the years ended September 30, 2014 and 2013 related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority records payments to administrative services expense and receipts from SHOPP as a reduction in contractual adjustments. The Authority made SHOPP payments totaling \$525,909 for the year ended September 30, 2014. In return, the Authority received \$1,888,041. The Authority made SHOPP payments totaling \$355,067 for the year ended September 30, 2013. In return, the Authority received \$2,066,467. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Reclassifications

Reclassifications have been made to the September 30, 2013 financial information to make it conform to the current year presentation. The reclassification had no effect on previously reported operating results or changes in net position.

Note 2 - Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which includes capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor.(MAC) The Authority's Medicare cost reports have been audited by the MAC through September 30, 2011. Fiscal year ending September 30, 2009 has not been audited.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the State Medicaid Program on a prospective basis at predetermined rates with no retroactive adjustment.

The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended September 30, 2014 and 2013:

	2014	2013
Medicare	39%	36%
Medicaid	21%	21%
Blue Cross	11%	11%
Other commercial payors	21%	23%
Self pay and other	8%	9%
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended September 30, 2014 and 2013, decreased approximately \$93,000 and \$140,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. The Authority has accrued \$57,144 and \$136,292 for RAC liability as of September 30, 2014 and 2013. The estimate is based on historical overpayments identified.

A summary of net patient service revenue for the years ended September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Total patient service revenue	<u>\$ 53,358,010</u>	<u>\$ 46,362,880</u>
Contractual adjustments and provisions for bad debt		
Contractual adjustments	(28,339,916)	(23,262,419)
Provisions for bad debt	<u>(3,407,132)</u>	<u>(3,740,072)</u>
Total contractual adjustments and provisions for bad debts	<u>(31,747,048)</u>	<u>(27,002,491)</u>
Net patient service revenue	<u><u>\$ 21,610,962</u></u>	<u><u>\$ 19,360,389</u></u>

Note 3 - Cash and Deposits

State statutes require public trusts to invest monies in direct obligations of the United States Government or in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit.

The following is a summary of deposits at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Total Bank Balance		
Insured (FDIC)	\$ 284,105	\$ 617,105
Collateralized with an irrevocable letter of credit held by the Authority's agent in the Authority's name	<u>1,219,770</u>	<u>3,675,665</u>
	<u><u>\$ 1,503,875</u></u>	<u><u>\$ 4,292,770</u></u>
Total Carrying Value		
Cash and cash equivalents	<u><u>\$ 1,270,014</u></u>	<u><u>\$ 3,963,714</u></u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

The Authority secures cash deposits in excess of \$250,000 with an irrevocable letter of credit. State law requires all deposits of public funds to be collateralized; however the Authority does not have a formal policy for collateralizing cash deposits. As of September 30, 2014 and 2013, none of the Authority's bank balances were exposed to custodial credit risk. The Authority's cash balances are maintained in various bank deposit accounts.

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2014, is as follows:

	2014			
	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Non-depreciable capital assets				
Land	\$ 157,808	\$ -	\$ -	\$ 157,808
Construction in process	493,686	426,575	(751,209)	169,052
Total non-depreciable capital assets	651,494	\$ 426,575	\$ (751,209)	326,860
Depreciable capital assets				
Land improvements	41,232	\$ 10,370	\$ -	51,602
Buildings and improvements	5,190,711	5,334	314,697	5,510,742
Major moveable equipment	11,539,277	982,135	436,512	12,957,924
Total depreciable capital assets	16,771,220	\$ 997,839	\$ 751,209	18,520,268
Less accumulated depreciation				
Land improvements	28,045	\$ 3,824	\$ -	31,869
Buildings and improvements	3,343,163	180,854	-	3,524,017
Major moveable equipment	9,173,801	836,880	-	10,010,681
Total accumulated depreciation	12,545,009	\$ 1,021,558	\$ -	13,566,567
Net depreciable capital assets	4,226,211			4,953,701
Capital assets, net	\$ 4,877,705			\$ 5,280,561

The majority of construction in progress at September 30, 2014, represents cost incurred for certified electronic health record software interface for local physicians with CPSI, OR renovations and various other smaller projects. Total expected cost to complete the projects is approximately \$400,000. The projects will be financed with internal funds and additional debt. Completion of the certified electronic health record interface is expected in March 2015 and OR renovation is the end of fiscal year 2015.

Capital asset activity for the year ended September 30, 2013, is as follows:

	2013			
	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Non-depreciable capital assets				
Land	\$ 157,808	\$ -	\$ -	\$ 157,808
Construction in process	217,476	381,671	(105,461)	493,686
Total non-depreciable capital assets	375,284	\$ 381,671	\$ (105,461)	651,494
Depreciable capital assets				
Land improvements	39,682	\$ 1,550	\$ -	41,232
Buildings and improvements	5,082,795	107,916	-	5,190,711
Major moveable equipment	10,463,993	1,022,115	53,169	11,539,277
Total depreciable capital assets	15,586,470	\$ 1,131,581	\$ 53,169	16,771,220
Less accumulated depreciation				
Land improvements	25,291	\$ 2,754	\$ -	28,045
Buildings and improvements	3,191,202	151,961	-	3,343,163
Major moveable equipment	8,498,229	727,864	(52,292)	9,173,801
Total accumulated depreciation	11,714,722	\$ 882,579	\$ (52,292)	12,545,009
Net depreciable capital assets	3,871,748			4,226,211
Capital assets, net	\$ 4,247,032			\$ 4,877,705

Note 5 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense in September 30, 2014 and 2013, for all operating leases is \$411,908 and \$317,933. The capitalized leased assets consist of:

	2014	2013
Major movable equipment	\$ 901,959	\$ 602,686
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(417,542)	(268,031)
	<u>\$ 484,417</u>	<u>\$ 334,655</u>

Minimum future lease payments for the operating leases are as follows:

Year Ending September 30,	Operating Leases
2015	\$ 460,843
2016	291,177
2017	68,230
2018	49,500
2019	49,500
2020-2024	247,500
2025-2029	148,500
Total minimum lease payments	<u>\$ 1,315,250</u>

For further information on capital leases, see Note 6.

Note 6 - Long-Term Debt

Long-term debt consists of:

	September 30, 2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note Payable:					
First Bank and Trust (1)	\$ 2,792,657	\$ -	\$ 107,630	\$ 2,685,027	\$ 113,541
Capitalized lease obligations (2)	421,042	299,273	127,839	592,476	291,976
Total long-term debt	<u>\$ 3,213,699</u>	<u>\$ 299,273</u>	<u>\$ 235,469</u>	<u>\$ 3,277,503</u>	<u>\$ 405,517</u>

Wagoner Hospital Authority
Notes to Financial Statements
September 30, 2014 and 2013

	Beginning Balance	September 30, 2013			Current Portion
		Additions	Deductions	Ending Balance	
Notes Payable:					
First Bank and Trust (1)	\$ 2,896,014	\$ -	\$ 103,357	\$ 2,792,657	\$ 109,320
Capitalized lease obligations (2)	396,445	140,934	116,337	421,042	127,942
Total long-term debt	<u>\$ 3,292,459</u>	<u>\$ 140,934</u>	<u>\$ 219,694</u>	<u>\$ 3,213,699</u>	<u>\$ 237,262</u>

The terms and due dates of the Authority's long-term debt, including capital lease obligations, as of September 30, 2014 are as follows:

1. Note payable, variable interest (4.0% at September 30, 2014), maximum loan principal \$3,000,000, due in monthly installments of \$18,241 included interest, with a balloon payment due September 2016, collateralized by accounts receivable, supplies and capital assets.
2. Capital lease obligations, at varying rates of imputed interest from 3.34% to 9.92%, collateralized by leased equipment, with varying maturity dates from January 2015 through September 2016. The Hospital signed a lease for equipment up to \$500,000. As of September 30, 2014 the Hospital placed into service approximately \$300,000. The Hospital expects to receive the remaining equipment valued at \$200,000 in the first quarter of 2015.

Scheduled principal and interest repayments on the note payable and payments on capital lease obligations are as follows:

Year Ending September 30,	Note Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2015	\$ 113,541	\$ 105,348	\$ 291,976	\$ 29,692
2016	2,571,486	84,264	300,500	19,183
Total	<u>\$ 2,685,027</u>	<u>\$ 189,612</u>	<u>\$ 592,476</u>	<u>\$ 48,875</u>

Note 7 - Concentration of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at September 30, 2014 and 2013, was as follows:

	2014	2013
Medicare	24%	20%
Medicaid	13%	19%
Commercial insurance	35%	36%
Other and patient	28%	25%
	<u>100%</u>	<u>100%</u>

Note 8 - Pension Plan

The Authority has a defined contribution pension plan under which eligible employees can participate in the Plan after one year of employment with the Authority. Employer contributions of 50% of each participant's salary reduction contributions up to 6% are deposited with the plan trustee who invests the plan assets. Total pension plan expense for the years ended September 30, 2014, 2013, and 2012, was \$73,701, \$31,907, and \$54,000.

Note 9 - Management Agreement

The Authority Board of Trustees has a management agreement with Quorum Health Resources LLC. This agreement is a defined service agreement for managing the day-to-day operations of the Authority through August 31, 2016. During the years ended September 30, 2014 and 2013, the Authority incurred fees to Quorum Health Resources, LLC for management services of \$161,426 and \$150,492.

Note 10 - Contingencies

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Medical Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on an occurrence-basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. The Authority accrues the expense, in any of its shares of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority's own claim experience. Approximately \$35,000 has been accrued for medical malpractice claims and is included in the accompanying financial statements.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.



Supplementary Information
September 30, 2014 and 2013

Wagoner Hospital Authority



Independent Auditor's Report on Supplementary Information

Board of Trustees
Wagoner Hospital Authority
Wagoner, Oklahoma

We have audited the financial statements of Wagoner Hospital Authority (Authority) as of and for the years ended September 30, 2014 and 2013, and our report thereon dated March 31, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of net patient service revenue, other operating revenue, and operating expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 31, 2015

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	2014		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	\$ 10,246,401	\$ 295,702	\$ 10,542,103
Other Nursing Services			
Central services and supply	-	10	10
Emergency services	810,453	3,907,072	4,717,525
	810,453	3,907,082	4,717,535
Other Professional Services			
Pulmonary rehab	-	622,487	622,487
Clinic	-	2,379,757	2,379,757
Laboratory	2,009,882	4,352,104	6,361,986
Observation	-	159,638	159,638
Operating room	2,948,245	5,764,697	8,712,942
Outpatient center	-	19,660	19,660
Pharmacy	3,275,239	1,362,283	4,637,522
Physical therapy	267,271	2,862	270,133
Psychiatric	1,291,407	286,375	1,577,782
Radiology	1,566,461	10,680,916	12,247,377
Respiratory therapy	796,012	311,114	1,107,126
Scopes	612	-	612
Sleep lab	-	502,500	502,500
	12,155,129	26,444,393	38,599,522
Charity Care			(501,150)
Gross Patient Services Revenue			53,358,010
Reductions from Revenue			
Contractual adjustments			(28,339,916)
Provision for bad debts			(3,407,132)
Total reductions from revenue			(31,747,048)
Net Patient Service Revenue			\$ 21,610,962

Wagoner Hospital Authority
Schedules of Net Patient Service Revenue
Years Ended September 30, 2014 and 2013

2013		
<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
<u>\$ 9,404,711</u>	<u>\$ 220,721</u>	<u>\$ 9,625,432</u>
-	13	13
<u>663,273</u>	<u>2,914,583</u>	<u>3,577,856</u>
<u>663,273</u>	<u>2,914,596</u>	<u>3,577,869</u>
-	54,127	54,127
-	1,725,447	1,725,447
2,088,039	4,178,442	6,266,481
-	105,560	105,560
3,404,964	3,822,980	7,227,944
363	13,563	13,926
3,131,519	1,118,475	4,249,994
166,378	548	166,926
1,284,594	704,729	1,989,323
1,559,293	8,454,427	10,013,720
873,875	269,532	1,143,407
-	10,658	10,658
<u>-</u>	<u>258,138</u>	<u>258,138</u>
<u>12,509,025</u>	<u>20,716,626</u>	<u>33,225,651</u>
		<u>(66,072)</u>
		<u>46,362,880</u>
		(23,262,419)
		<u>(3,740,072)</u>
		<u>(27,002,491)</u>
		<u><u>\$ 19,360,389</u></u>

Wagoner Hospital Authority
Schedules of Other Operating Revenue
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Other Revenue		
Rent	\$ 78,422	\$ 84,918
Vendor rebates	43,149	49,214
Cafeteria	61,079	24,043
Government incentive for electronic health records	537,407	794,949
Miscellaneous	<u>20,086</u>	<u>18,302</u>
Total other revenue	<u><u>\$ 740,143</u></u>	<u><u>\$ 971,426</u></u>

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	2014		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	\$ 883,394	\$ 839,256	\$ 1,722,650
Central services and supply	82,412	17,608	100,020
Emergency services	803,588	1,055,666	1,859,254
	<u>1,769,394</u>	<u>1,912,530</u>	<u>3,681,924</u>
Other Professional Services			
Pulmonary rehab	-	153,762	153,762
Clinic	852,294	665,223	1,517,517
Laboratory	336,559	468,274	804,833
Operating room	1,747,407	1,560,409	3,307,816
Outpatient center	53,854	15,269	69,123
Pharmacy	151,147	562,106	713,253
Physical therapy	556	94,648	95,204
Psychiatric	1,642,406	784,854	2,427,260
Radiology	552,538	1,310,081	1,862,619
Respiratory therapy	187,303	95,497	282,800
Sleep lab	-	107,300	107,300
	<u>5,524,064</u>	<u>5,817,423</u>	<u>11,341,487</u>
General Services			
Dietary	(168)	605,600	605,432
Housekeeping	202,325	149,027	351,352
Medical records	231,806	112,703	344,509
Plant engineering	147,892	459,170	607,062
	<u>581,855</u>	<u>1,326,500</u>	<u>1,908,355</u>
Administrative Services			
Administrative and general	1,123,896	1,555,153	2,679,049
SHOPP assessment	-	525,909	525,909
Employee benefits	-	1,157,765	1,157,765
Insurance	-	490,866	490,866
	<u>1,123,896</u>	<u>3,729,693</u>	<u>4,853,589</u>
Provision for Depreciation	-	1,021,558	1,021,558
Total Expenses	<u>\$ 8,999,209</u>	<u>\$ 13,807,704</u>	<u>\$ 22,806,913</u>

Wagoner Hospital Authority
Schedules of Operating Expenses
Years Ended September 30, 2014 and 2013

2013		
Salaries	Other	Total
\$ 886,031	\$ 777,295	\$ 1,663,326
90,728	30,116	120,844
903,470	598,138	1,501,608
1,880,229	1,405,549	3,285,778
-	15,223	15,223
331,321	487,048	818,369
373,509	533,328	906,837
1,026,197	1,294,243	2,320,440
51,601	12,404	64,005
151,531	422,046	573,577
781	43,408	44,189
1,653,328	785,511	2,438,839
766,405	761,622	1,528,027
184,295	92,830	277,125
-	49,850	49,850
4,538,968	4,497,513	9,036,481
201,327	257,623	458,950
233,672	155,947	389,619
197,526	121,379	318,905
124,517	421,294	545,811
757,042	956,243	1,713,285
1,051,772	1,401,794	2,453,566
-	355,067	355,067
-	1,025,258	1,025,258
-	499,013	499,013
1,051,772	3,281,132	4,332,904
-	882,579	882,579
\$ 8,228,011	\$ 11,023,016	\$ 19,251,027



**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Wagoner Hospital Authority
Wagoner, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wagoner Hospital Authority (Authority), which comprise the statement of net position as of September 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wagoner Hospital Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies: 2014-A through 2014-E.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oklahoma City, Oklahoma
March 31, 2015

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2014-A Preparation of Financial Statements

Condition and criteria: The Authority does not have the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Effect: The potential for misstatements to internally generated financial statements.

Cause: The board had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Auditor's Recommendation: It is recommended the Authority implement a system that allows for the preparation of interim and year-end financial statements in accordance with GAAP.

Management Response: Given the size of the Authority, we do not think it would be cost-effective to fully cure this technical deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

2014-B Segregation of Duties

Condition and criteria: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Effect: Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Cause: A limited number of office personnel prevent a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Auditor's Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Authority should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Authority should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Management Response: Management agrees with the finding and has reviewed the operating procedures of the Authority. Due to the limited number of office employees, management will continue to monitor the Authority's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

2014-C Credit Balances in Patient Accounts Receivable

Condition and criteria: An important control in accounts receivable is to monitor patient balances within the detail and determine the reasoning and proper course of action on credit balances. A large number of credit balances exist within patient accounts receivable.

Effect: A reclassification entry was made to record these credit balances (or negative receivables) as accounts payable for financial statement reporting purposes.

Cause: Credit balances within patient accounts receivable are not being reviewed on a normal basis.

Auditor's Recommendation: We recommend that management and business office staff continue to monitor the accounts receivable listing and determine the status of these accounts with credit balances. We also recommend that any credit balances be reviewed on a monthly basis so necessary action can be taken in regards to these accounts as soon as possible. This process will ensure the accuracy of the accounts receivable detail and strengthen internal controls over accounts receivable.

Management Response: Management will work to analyze these accounts and determine the proper course of action on the accounts.

2014-D Audit Entries

Condition and criteria: During the course of the audit, we proposed audit adjustments for EHR, estimated third-party settlements and accounts payable.

Effect: If adjustments had not been recorded, the financial statements would have been understated by \$632,000.

Cause: One of the entries is due to the variance in management's estimate of third-party settlements and the filed cost report. Another entry is due to a miscalculation of an amount due to a vendor. The final entry is to record a receivable for EHR due to the Hospital meeting the requirements during the year.

Auditor's Recommendation: We recommend that management continue to review each transaction to verify that amounts are properly recorded.

Management Response: Management will work to implement a review process for these transactions.

2014-E Cost Report Estimate

Condition and criteria: During the course of the audit, we noted the Authority did not accurately estimate the financial impact of the Medicare cost report settlement.

Effect: Adjusting journal entry to adjust the cost report estimate.

Cause: The Authority does not have a program to enable an accurate estimate

Auditor's Recommendation: We recommend the Authority consider interim cost reports, purchase software or develop an internal spread sheet to assist with the estimate.

Management Response: Management will evaluate the cost benefit of providing an accurate estimate